

Newman & Partners

Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at insolvency@newmanandpartners.co.uk

Credit card debt growing at its fastest rate since the financial crisis

New data from UK Finance has revealed that credit card debt is growing at a frightening pace. According to the trade association's latest figures, the annual growth rate in outstanding credit card debt soared to 8.3 per cent in February – the fastest rate on record since the financial crisis.

Analysing the data, UK Finance said that modern conveniences such as contactless technology were encouraging consumers to use their cards more and more for smaller purchases, which is why many Britons are now racking up greater amounts of debt over shorter periods of time. The data reveals that there were a total of 220 million credit card transactions made in the UK in February alone – up 3.3 per cent on the number of transactions recorded in January.

The figures come just months ahead of the introduction of new changes to protect credit card holders from 'persistent debt', which will take effect this September. Among other measures, these new rules will see consumers 'prompted' to pay back their debts sooner, thus preventing their bills from snowballing.

In its report, UK Finance also noted that credit card debt was growing at a rate much faster than other forms of debt, such as overdrafts, loans and alternative finance. However, elsewhere, other organisations such as the Financial Conduct Authority (FCA), have warned that many families are simply "in too deep" with all kinds of debt.



In March, Jonathan Davidson, Director of Supervision at the FCA, told delegates at London's Credit Summit that "the slightest sign of rough weather" – such as a string of interest rate increases – could see many struggling households "in over their heads."

Providing the right advice to your clients during a period of financial difficulty is crucial, and any concerns regarding insolvency are always best explored sooner rather than later. To find out more about our proactive services, please contact us.

Rise in number of 'zombie businesses' operating in South East England

Research published by insolvency and restructuring trade body R3 in recent weeks has revealed a rise in the number of so-called 'zombie businesses' operating in South East England. Interestingly, this regional rise contradicts trends across the rest of the UK, where the number of zombie firms fell substantially in the six months to December 2017.

A 'zombie business' is defined as a company which can effectively only survive through the constant refinancing of its debts. Such firms do not make any profit, as any revenue they do bring in rarely rises above the amount they owe in interest.

According to R3's data, the number of such firms operating in South East England skyrocketed between April and December 2017, to make up around four per cent of all firms operating in that region, up from just one per cent. R3's report estimates that there are now approximately 12,000 businesses

in the area struggling to break free from 'zombie' status.

Many firms caught up in this position could very well be at risk of facing financial distress if they experience any unanticipated changes in their cash flow, or if the Bank of England (BoE) moves ahead with its rumoured plans to increase interest rates in May, for example. Interestingly, however, only one per cent of businesses quizzed as part of R3's research said that they would struggle to repay their debts if the Bank's Monetary Policy Committee (MPC) announced a marginal increase to its base rate, as has been predicted.

Meanwhile, separate research suggests the UK's insolvency and restructuring framework has proven hugely successful in reducing the number of zombie businesses operating elsewhere in the UK in recent months. According to recent data from the Organisation for Economic Co-operation and Development (OECD), Britain currently has the best insolvency and restructuring framework of all the OECD's 34 member nations.

Our team at Newman and Partners can provide help to you if your client is struggling with debt issues. To find out more, please contact us.

Government to launch consultation into protecting suppliers from insolvency

The Government will launch a consultation on new proposals which would grant greater insolvency protection to creditors of insolvent businesses, such as companies in the supply chain that are negatively affected by insolvencies further along the line. The news comes in a bid to ensure standards are properly upheld in businesses that are facing insolvency.

Announcing the move towards the end of March, Business Secretary Greg Clark acknowledged that Britain had a "good reputation internationally for being a dependable place to do business, based on high standards," but suggested that reforms were needed to ensure such high standards are maintained when it comes to businesses that are facing insolvency.

He said that more needed to be done to ensure that creditors and suppliers do not lose out by reversing "inappropriate" asset stripping where possible. He added that the Insolvency Service should have the power to investigate the directors of any dissolved companies – and that shareholders' responsibilities should be strengthened in terms of the

businesses they have invested in.

"These reforms will give the regulatory authorities much stronger powers to come down hard on abuse and to make irresponsible directors bear the consequences of their actions," Mr Clark said, acknowledging that lessons needed to be learned "in the light of some recent corporate failures" such as the Carillion collapse.

The findings of the consultation are due to be published in a report entitled *Insolvency and Corporate Governance*, which is expected to be published later this year.

Our team at Newman and Partners



can provide help to you if your client is struggling with debt issues or facing insolvency. Such concerns are always best explored at the earliest possible opportunity. To find out more about our debt management services, please contact us.

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